



Financial Statements

December 31, 2021 and 2020

**Shattuck Hospital Authority d/b/a  
Newman Memorial Hospital, Inc.**

Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

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December 31, 2021 and 2020

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## Independent Auditor's Report

Board of Trustees  
Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.  
Shattuck, Oklahoma

### Report on the Audit of the Financial Statements

#### *Qualified Opinion*

We have audited the financial statements of Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (Authority), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and statements of cash flows for the years then ended and, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Authority as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Qualified Opinion*

The Authority has an unrelated business income tax liability included in the statements of net position as of December 31, 2021 and 2020. Due to the turnover in management, the current management did not have sufficient appropriate audit evidence to support the calculation of the tax liability and the net position balances as of December 31, 2021 and 2020. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

In addition, the Authority capitalized assets included in the statements of net position for the years ending December 31, 2021 and 2020 as a result of a clinic purchase. Management did not have adequate records and documentation to support the valuation of the assets. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
November 18, 2022

Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 934,865	\$ 2,636,682
Restricted cash	1,193,938	2,721,191
Short term investments	822,709	820,722
Receivables		
Patient, net of estimated uncollectibles of approximately \$6,956,000 in 2021 and \$6,650,000 in 2020	1,254,597	946,271
Sales tax	256,850	120,015
Other	27,260	27,260
Supplies	146,275	108,669
Prepaid expenses	46,904	22,903
Total current assets	<u>4,683,398</u>	<u>7,403,713</u>
Noncurrent Cash		
Internally designated for operations and maintenance	390,070	314,204
Restricted by trustee for debt reserve	145,199	110,335
Total noncurrent assets	<u>535,269</u>	<u>424,539</u>
Capital Assets		
Capital assets not being depreciated	41,025	41,025
Capital assets being depreciated, net	8,219,281	6,940,939
Total capital assets	<u>8,260,306</u>	<u>6,981,964</u>
Other Assets	7,500	8,500
Total assets	13,486,473	14,818,716
Deferred Outflows of Resources		
Goodwill	67,500	76,500
Total assets and deferred outflows of resources	<u>\$ 13,553,973</u>	<u>\$ 14,895,216</u>

Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 196,971	\$ 256,024
Accounts payable		
Trade	680,898	323,826
Taxes payable	812,051	5,049,746
Estimated third-party payor settlements	569,267	745,124
Accrued expenses		
Salaries and wages	179,651	163,872
Interest	8,158	8,158
Refundable advance - Provider Relief Fund	<u>1,193,938</u>	<u>2,721,191</u>
Total current liabilities	3,640,934	9,267,941
Long-Term Debt, Less Current Maturities	<u>4,476,900</u>	<u>4,673,845</u>
Total liabilities	<u>8,117,834</u>	<u>13,941,786</u>
Net Position		
Net investment in capital assets	3,658,186	2,133,087
Restricted:		
Expendable for operations and maintenance	646,920	434,219
Expendable for debt service	145,199	110,335
Unrestricted	<u>985,834</u>	<u>(1,724,211)</u>
Total net position	<u>5,436,139</u>	<u>953,430</u>
Total liabilities and net position	<u><u>\$ 13,553,973</u></u>	<u><u>\$ 14,895,216</u></u>

Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$687,172 in 2021 and \$1,538,460 in 2020)	\$ 7,226,105	\$ 5,795,108
Other revenue	<u>162,561</u>	<u>222,813</u>
Total operating revenues	<u>7,388,666</u>	<u>6,017,921</u>
Operating Expenses		
Salaries and benefits	4,034,529	3,090,095
Supplies	1,330,556	897,794
Purchased services	2,047,881	2,222,621
Depreciation and amortization	648,007	441,837
Repairs and maintenance	360,439	319,439
Other	<u>980,144</u>	<u>398,545</u>
Total operating expenses	<u>9,401,556</u>	<u>7,370,331</u>
Operating Loss	<u>(2,012,890)</u>	<u>(1,352,410)</u>
Nonoperating Revenues (Expenses)		
Appropriations - unrestricted	621,163	549,964
Investment income	2,155	7,703
Interest expense	(213,746)	(208,915)
Noncapital gifts	400	10,077
Provider Relief Funds	1,847,932	702,759
Forgiveness of Paycheck Protection Program Loan	-	717,000
Forgiveness of tax liability	<u>4,237,695</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>6,495,599</u>	<u>1,778,588</u>
Revenues in Excess of Expenses and Change in Net Position	4,482,709	426,178
Net Position, Beginning of Year	<u>953,430</u>	<u>527,252</u>
Net Position, End of Year	<u>\$ 5,436,139</u>	<u>\$ 953,430</u>



# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

## Statements of Cash Flows Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 6,741,922	\$ 6,815,097
Payments to suppliers and contractors	(4,481,363)	(3,978,772)
Payments to and on behalf employees	(4,018,750)	(3,049,401)
Other receipts and payments, net	<u>162,561</u>	<u>195,553</u>
Net Cash used for Operating Activities	<u>(1,595,630)</u>	<u>(17,523)</u>
Noncapital Financing Activities		
Noncapital gifts	400	10,077
Appropriations supporting operations	484,328	611,061
Proceeds from Paycheck Protection Program Loan	-	717,000
Grants and contributions from Provider Relief Fund	320,679	3,423,950
Principal payments on long-term debt	(9,241)	(9,008)
Interest paid	<u>(2,098)</u>	<u>(2,331)</u>
Net Cash from Noncapital Financing Activities	<u>794,068</u>	<u>4,750,749</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	(1,858,541)	(34,545)
Principal payments on long-term debt	(246,757)	(237,870)
Interest paid	<u>(211,648)</u>	<u>(206,584)</u>
Net Cash used for Capital and Capital Related Financing Activities	<u>(2,316,946)</u>	<u>(478,999)</u>
Investing Activities		
Investment income	<u>168</u>	<u>355</u>
Net Change in Cash and Cash Equivalents	(3,118,340)	4,254,582
Cash and Cash Equivalents, Beginning of Year	<u>5,782,412</u>	<u>1,527,830</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,664,072</u></u>	<u><u>\$ 5,782,412</u></u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 934,865	\$ 2,636,682
Cash and cash equivalents in noncurrent cash	535,269	424,539
Restricted under Provider Relief Fund	<u>1,193,938</u>	<u>2,721,191</u>
Total cash and cash equivalents	<u><u>\$ 2,664,072</u></u>	<u><u>\$ 5,782,412</u></u>

Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (2,012,890)	\$ (1,352,410)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	648,007	441,837
Provision for bad debts	687,172	1,538,460
Changes in assets and liabilities, net of acquisition		
Patient receivables	(995,498)	(1,614,130)
Other receivables	-	(27,260)
Supplies	(37,606)	19,055
Estimated third-party payor settlements	(175,857)	1,095,659
Prepaid expenses	(24,001)	6,770
Accounts payable	299,264	(166,198)
Accrued expenses	15,779	40,694
Net cash used for operating activities	<u>\$ (1,595,630)</u>	<u>\$ (17,523)</u>
Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	<u>\$ -</u>	<u>\$ 100,071</u>
Accounts payable for equipment	<u>\$ 57,808</u>	<u>\$ 31,284</u>
Disclosure of Noncash Noncapital Financing Activities		
Forgiveness of Paycheck Protection Program Loan and related interest	<u>\$ -</u>	<u>\$ 717,000</u>
Forgiveness of tax liability	<u>\$ 4,237,695</u>	<u>\$ -</u>

## **Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of the Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

### **Reporting Entity**

The Authority is a public trust created on August 6, 1964 under the provisions of Title 60, Oklahoma Statutes, the Oklahoma Trust Act and other applicable laws and statutes of the State of Oklahoma. The Authority's sole activity is the operation of a 25-bed critical access hospital located in Shattuck, Oklahoma. The Authority primarily earns revenues by providing inpatient, outpatient and emergency care services to residents in and around the Town of Shattuck, Oklahoma. The Town of Shattuck, Oklahoma is the beneficiary and will receive all residual trust funds and assets upon termination of the trust.

The Authority operated Newman Memorial Hospital, Inc. (Hospital) under an operation and maintenance contract. In addition to the operations and maintenance contract, the Authority leased the land, premises equipment and other structures from the Hospital. The contract term was from September 22, 2009 to September 22, 2019, but in no event prior to the date that all debt obligations of the Authority have been satisfied.

Effective January 1, 2018, the Authority entered into a separate operations services agreement where the Hospital will manage and operate the facilities on behalf of the Authority. The term of this agreement shall continue until all of the loans with the U.S. Department of Agriculture (USDA) are satisfied and the lease agreement is terminated.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority.

### **Blended Component Unit**

The Hospital is an Oklahoma non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is included as a blended component unit of the Authority as the Hospital is fiscally dependent on the Authority and there is a potential for the Hospital to provide specific financial benefits to or impose specific financial burdens on the Authority. The financial statements include only the financial activity of the Authority and the Hospital, collectively referred to as the Authority.

### **Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in the following components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

*Restricted net position:*

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority had no restricted, nonexpendable net position at December 31, 2021 and 2020.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

**Income Taxes**

The Authority is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Authority is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Authority is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The business activities, unrelated to the Authority's exempt purpose, includes the reference lab services discussed in Note 11. The Authority filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income for the year ending December 31, 2017. The Authority has recorded a liability of \$812,051 and \$5,049,746 as of December 31, 2021 and 2020, respectively, related to unrelated business taxable income generated in the 2017 tax year. During 2021, the IRS accepted an Offer in Compromise to forgive \$4,237,695 which discharged the federal tax liability.

During the 2017 tax year, the Authority engaged in reference lab services that have been determined to generate unrelated business income. The amount of income generated from this activity was significant compared to the income generated by hospital operations. There is a possibility the IRS could challenge the tax-exempt status of the Authority if, based on the facts and circumstances of the activity they found, the Authority operated substantially for non-charitable purposes during this time. The Authority was not aware the conduct of the activity was considered unrelated to their exempt purposes until after the activity was terminated. The Authority does not believe it is more likely than not the IRS would revoke tax exempt status based on all facts and circumstances. As such, no potential liability needs to be disclosed. The Authority believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Authority would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

### **Restricted Cash**

Cash that has restrictions which change the nature or normal understanding of availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets. Restricted cash include funds that are restricted by trustee for debt service and proceeds from Provider Relief Funds (Note 3). Internally designated for specific operating purposes consists of cash set aside by the Board of Trustees for future operating purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Restricted and internally designated cash that are available for obligations classified as current liabilities are reported in current assets.

### **Short-term Investments**

Short-term investments include certificates of deposit with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

### **Patient Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### **Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

### **Investment Income**

Interest on investments and deposits are included in nonoperating revenues when earned.

### **Capital Assets**

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements.

The estimated useful lives of capital assets are as follows:

Land improvements	5-40 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are reported after nonoperating revenues (expenses). Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

### **Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category, which is goodwill. Goodwill results when consideration provided for the acquisition of assets exceeds the net position acquired. The goodwill amount is systematically and rationally amortized over a period of 10 years.

### **Compensated Absences**

The Authority's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued salaries and wages in the accompanying financial statements.

### **Operating Revenues and Expenses**

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

### **Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### **Charity Care**

The Authority provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$57,000 and \$64,000 for the years ended December 31, 2021 and 2020, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

### **Grants and Contributions**

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

### **Supplemental Hospital Offset Payment Program Act**

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), requires a fee on hospitals to generate matching funds to the State of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as a reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

The Authority received SHOPP funds totaling approximately \$266,000 and \$201,000 for the years ended December 31, 2021 and 2020, which are included in net patient service revenue.

### **Appropriations**

In 2018, the citizens of Ellis County, Oklahoma, approved a 1/2-cent sales tax from October 1, 2018 to September 30, 2020. The proceeds of this sales tax can be used exclusively for ongoing operation and maintenance expenses of the Authority. During March 2020, the tax was extended for an addition five-year term from October 1, 2020 to September 30, 2025.

Effective October 1, 2018, the citizens of the Town approved an increase of 1% in the Town's use tax for two years to be used to support the operations of the Authority. During 2020, the tax was extended for another two-year term to expire September 30, 2022.



In 2021 and 2020, the Authority received approximately 8% of its financial support from appropriations related to sales and use tax. Unexpended funds related to appropriations are reflected on the accompanying statements of net position as held for operations and maintenance.

## **Note 2 - Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare:** The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended December 31, 2018. Clinical services are paid on a cost basis or fixed fee schedule.

**Medicaid:** Inpatient and outpatient services rendered to patients covered by the State Medicaid program are reimbursed on a prospectively determined per diem rate or established fee.

**Blue Cross:** Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

**Other:** The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements  
December 31, 2021 and 2020

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended December 31, 2021 and 2020:

	2021	2020
Medicare	58%	59%
Medicaid	5%	4%
Blue Cross and other commercial payors	33%	31%
Self pay and other	4%	6%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

## Note 3 - Provider Relief Funds

The Authority received Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) totaling \$220,679 and \$3,277,920 during the years ended December 31, 2021 and 2020. The funds are subject to terms and conditions imposed by HHS. The Authority also received \$78,499 from the OSU Office of Rural Health and \$18,069 from the Oklahoma Hospital Association for COVID related expenses during the year ended December 31, 2020. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Authority received the funds. Unspent funds will be expected to be repaid.

The Authority also received \$100,000 and \$49,461 through the Paycheck Protection Program and Health Care Enhancement Act (PPHCEA) for its rural health clinic(s) to conduct COVID-19 testing during the years ended December 31, 2021 and 2020, respectively. This funding may only be used for conducting COVID-19 testing and related expenses, including building or construction of temporary structures, leasing of properties, and retrofitting facilities as necessary to support COVID-19 testing.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As of December 31, 2021 and 2020, the Authority had a liability of \$1,193,938 and \$2,721,191, which were included in current liabilities on the accompanying statements of net position under refundable advance – Provider Relief Fund, as well as restricted cash totaling \$1,193,938 and \$2,721,191, which is subject to the restrictions imposed by HHS. During the years ended December 31, 2021 and 2020, the Authority recognized \$1,847,932 and \$702,759 as revenue, included as nonoperating activities on the statements of revenues, expenses, and changes in net position.

#### Note 4 - Deposits and Investments

The carrying amounts of deposits consisted of cash deposits in banks as of December 31, 2021 and 2020. Deposits are reported in the following statement of net position captions:

	2021	2020
Total Carrying Value		
Cash and cash equivalents	\$ 934,865	\$ 2,636,682
Restricted cash	1,193,938	2,721,191
Short term investments	822,709	820,722
Internally designated for operations and maintenance	390,070	314,204
Restricted by trustee for debt service	145,199	110,335
	<u>\$ 3,486,781</u>	<u>\$ 6,603,134</u>

#### Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. State statutes require that investments be made only in U.S. government obligations and that all bank balances are protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance or bonds.

The Authority's deposits in banks at December 31, 2021 and 2020 were entirely covered by federal depository insurance or by collateral held in the Authority's custodial bank in the Authority's name.

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements  
December 31, 2021 and 2020

## Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

## Note 5 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2021 are as follows:

	Balance December 31 2020	Additions	Transfers and Retirements	Balance December 31 2021
Capital assets not being depreciated				
Land	\$ 41,025	\$ -	\$ -	\$ 41,025
Capital assets being depreciated				
Land improvements	\$ 38,745	\$ -	\$ -	\$ 38,745
Building and improvements	12,163,168	-	-	12,163,168
Equipment	10,260,795	1,916,349	-	12,177,144
Total capital assets being depreciated	22,462,708	\$ 1,916,349	\$ -	24,379,057
Less accumulated depreciation for				
Land improvements	(38,745)	\$ -	\$ -	(38,745)
Building and improvements	(5,240,012)	(292,469)	-	(5,532,481)
Equipment	(10,243,012)	(345,538)	-	(10,588,550)
Total accumulated depreciation	(15,521,769)	\$ (638,007)	\$ -	(16,159,776)
Net capital assets being depreciated	\$ 6,940,939			\$ 8,219,281
Capital assets, net	\$ 6,981,964			\$ 8,260,306

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2020 are as follows:

	Balance December 31 2019	Additions	Transfers and Retirements	Balance December 31 2020
Capital assets not being depreciated				
Land	\$ 41,025	\$ -	\$ -	\$ 41,025
Capital assets being depreciated				
Land improvements	\$ 38,745	\$ -	\$ -	\$ 38,745
Building and improvements	12,163,168	-	-	12,163,168
Equipment	10,094,895	165,900	-	10,260,795
Total capital assets being depreciated	22,296,808	\$ 165,900	\$ -	22,462,708
Less accumulated depreciation for				
Land improvements	(38,745)	\$ -	\$ -	(38,745)
Building and improvements	(4,948,054)	(291,958)	-	(5,240,012)
Equipment	(10,103,133)	(139,879)	-	(10,243,012)
Total accumulated depreciation	(15,089,932)	\$ (431,837)	\$ -	(15,521,769)
Net capital assets being depreciated	\$ 7,206,876			\$ 6,940,939
Capital assets, net	\$ 7,247,901			\$ 6,981,964

## Note 6 - Lease Obligations

The Authority leases various equipment under noncancelable long-term lease agreements. These leases have been recorded as capitalized leases. The capitalized leased assets consist of:

	2021	2020
Equipment	\$ 473,616	\$ 473,616
Less accumulated amortization	(285,396)	(196,616)
	\$ 188,220	\$ 277,000

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

Minimum future lease payments for the capital leases are as follows:

<u>Years Ending December 31,</u>	<u>Capital Leases</u>
2022	\$ 27,761
2023	25,648
2024	19,306
2025	19,306
2026	<u>19,314</u>
Total minimum lease payments	111,335
Less interest	<u>(11,736)</u>
Present value of minimum lease payments - Note 7	<u><u>\$ 99,599</u></u>

## Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt and capital lease obligations for 2021 and 2020 is as follows:

	Balance December 31, 2020	Additions	Payments	Balance December 31, 2021	Due Within One Year
Direct Borrowings:					
USDA mortgage (A)	\$ 637,020	\$ -	\$ (63,196)	\$ 573,824	\$ 66,114
USDA construction loans (B)	4,017,941	-	(91,502)	3,926,439	95,691
Note payable (C)	6,233	-	(3,975)	2,258	2,258
Note payable (D)	<u>80,992</u>	<u>-</u>	<u>(9,241)</u>	<u>71,751</u>	<u>9,481</u>
Total notes	4,742,186	-	(167,914)	4,574,272	173,544
Capital Leases - Note 6	<u>187,683</u>	<u>-</u>	<u>(88,084)</u>	<u>99,599</u>	<u>23,427</u>
Total long-term debt	<u><u>\$ 4,929,869</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (255,998)</u></u>	<u><u>\$ 4,673,871</u></u>	<u><u>\$ 196,971</u></u>
	Balance December 31, 2019	Additions	Payments	Balance December 31, 2020	Due Within One Year
Direct Borrowings:					
USDA mortgage (A)	\$ 697,290	\$ -	\$ (60,270)	\$ 637,020	\$ 63,053
USDA construction loans (B)	4,105,861	-	(87,920)	4,017,941	91,945
Note payable (C)	9,788	-	(3,555)	6,233	3,701
Note payable (D)	90,000	-	(9,008)	80,992	9,241
Paycheck Protection Program	<u>-</u>	<u>717,000</u>	<u>(717,000)</u>	<u>-</u>	<u>-</u>
Total notes	4,902,939	717,000	(877,753)	4,742,186	167,940
Capital Leases - Note 6	<u>173,737</u>	<u>100,071</u>	<u>(86,125)</u>	<u>187,683</u>	<u>88,084</u>
Total long-term debt	<u><u>\$ 5,076,676</u></u>	<u><u>\$ 817,071</u></u>	<u><u>\$ (963,878)</u></u>	<u><u>\$ 4,929,869</u></u>	<u><u>\$ 256,024</u></u>

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements  
December 31, 2021 and 2020

The terms and due dates of the Authority's direct borrowings and capital lease obligations at December 31, 2021 and 2020 are as follows:

- **USDA Mortgage (A) and Construction Loans (B):** The Authority entered into a mortgage obligation with the USDA, which is secured by a first mortgage on the Authority's property and a pledge of the Authority's gross revenues with principal and interest of \$7,674 payable monthly through June 2030 and interest at 4.75%. The Authority entered into three construction loan obligations with the USDA, which are secured by a pledge of the Authority's gross revenues with principal and interest of \$20,875 collectively payable monthly through 2046 and interest at 4.0%.
- **Note payable to bank (C),** issued July 2017, secured by the associated vehicle, payable in monthly installments of \$327 including interest at 4.99% through maturity in July 2022.
- **Note payable to vendor (D),** issued March 2019, unsecured, payable in yearly installments of \$11,339 including interest at 2.59% through January 2028.
- **Paycheck Protection Program (PPP) Loan:** The Authority was granted a \$717,000 loan under the PPP administered by the Small Business Administration (SBA) approved partner. The Authority initially recorded a note payable and subsequently recorded forgiveness when the obligation was legally released by the SBA and lender during the year ended December 31, 2020.
- **Capital lease obligations** with various interest rates from 4.38% to 4.94%, collateralized by associated equipment, with varying maturity dates from September 2023 through December 2026.

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

Years Ending December 31,	Direct Borrowings		Capital Leases	
	Principal	Interest	Principal	Interest
2022	\$ 173,544	\$ 182,736	\$ 23,427	\$ 4,334
2023	178,640	175,335	22,443	3,205
2024	186,315	167,660	17,034	2,272
2025	194,325	159,650	17,895	1,411
2026	202,685	151,290	18,800	514
2027 - 2031	865,157	632,853	-	-
2032 - 2036	773,834	478,906	-	-
2037 - 2041	944,848	307,892	-	-
2042 - 2046	1,054,924	99,865	-	-
Total	<u>\$ 4,574,272</u>	<u>\$ 2,356,187</u>	<u>\$ 99,599</u>	<u>\$ 11,736</u>

**Note 8 - Retirement Plan**

The Authority contributes to a defined contribution pension plan covering all employees who meet the eligibility requirements. Pension expense is recorded for the amount of the Authority's required contributions determined in accordance with the terms of the plan. The plan provides retirement and death benefits to plan members and their beneficiaries. The Authority's funding policy was to contribute one-third of an employee's annual contribution up to the maximum match of 2% of the employee's annual salary. Total pension plan expense for the years ended December 31, 2021 and 2020, was approximately \$58,000. Participant interests are fully vested in their contributions and the Authority's contributions immediately. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body.

**Note 9 - Management Agreements**

Effective August 9, 2017, the Authority entered into a management contract with Community Healthcare Management. The Authority paid Community Healthcare Management \$66,000 and \$396,000 for management services for the years ended December 31, 2021 and 2020, respectively. The contract was terminated by the Authority in March 2021. As of December 31, 2021 and 2020, the Authority owes Community Healthcare Management \$-0- for management services.

**Note 10 - Concentrations of Credit Risk**

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2021 and 2020 was as follows:

	2021	2020
Medicare	15%	8%
Medicaid	1%	1%
Blue Cross and other commercial payors	10%	8%
Self pay and other	74%	83%
	<u>100%</u>	<u>100%</u>



#### **Note 11 - Reference Lab Services**

During 2016, the Authority entered into agreements for outreach lab services. The Authority contracted for outreach lab services with third party certified labs, utilized a third-party company for administrative services and billed commercial payors or patients for these services. Certain payors have requested documentation for billed claims and are reviewing for validity, accuracy and proper documentation. As a result of this review, the Authority ceased providing the outreach lab services in June 2017. The potential exists that the Authority may incur a liability for claims overpayment at a future date upon completion of this review. As the outcome of such reviews is unknown and cannot be reasonably estimated, it is the Authority's policy to adjust revenue for deduction from overpayment amounts or additions from underpayment amounts determined under the reviews at the time a change in reimbursement is agreed upon between the Authority and the payors.

#### **Note 12 - Commitments and Contingencies**

##### **Risk Management**

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

##### **Malpractice Insurance**

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

##### **Litigation, Claims, and Disputes**

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements  
December 31, 2021 and 2020

## Note 13 - Related Party Transactions

From time to time the Authority has transactions with members of the Board of Trustees, family members of members and companies owned by members of the Board of Trustees. Transactions are conducted at arms length.

## Note 14 - Condensed Combining Information

The following summarizes combining information for the Authority and Hospital, which have been presented as blended component units, as of and for the year ended December 31, 2021.

Statement of net position as of December 31, 2021:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Eliminations	Combined Total
<b>Assets</b>				
Current assets	\$ 256,850	\$ 4,426,548	\$ -	\$ 4,683,398
Noncurrent assets	535,269	7,500	-	542,769
Capital assets, net	8,221,556	38,750	-	8,260,306
<b>Total assets</b>	<b>9,013,675</b>	<b>4,472,798</b>	<b>-</b>	<b>13,486,473</b>
Deferred Outflows of Resources	-	67,500	-	67,500
<b>Total assets and deferred outflows of resources</b>	<b>\$ 9,013,675</b>	<b>\$ 4,540,298</b>	<b>\$ -</b>	<b>\$ 13,553,973</b>
<b>Liabilities</b>				
Current liabilities	\$ 195,648	\$ 3,445,286	\$ -	\$ 3,640,934
Long-term debt, less current maturities	4,414,630	62,270	-	4,476,900
<b>Total liabilities</b>	<b>4,610,278</b>	<b>3,507,556</b>	<b>-</b>	<b>8,117,834</b>
<b>Net Position</b>				
Net investment in capital assets	3,619,436	38,750	-	3,658,186
Restricted, expendable for operations and maintenance	646,920	-	-	646,920
Restricted, expendable for debt service	145,199	-	-	145,199
Unrestricted	(8,158)	993,992	-	985,834
<b>Total net position (deficit)</b>	<b>4,403,397</b>	<b>1,032,742</b>	<b>-</b>	<b>5,436,139</b>
<b>Total liabilities and net position</b>	<b>\$ 9,013,675</b>	<b>\$ 4,540,298</b>	<b>\$ -</b>	<b>\$ 13,553,973</b>

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements

December 31, 2021 and 2020

## Operating results and changes in net position for the year ended December 31, 2021:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Eliminations	Combined Total
Operating revenues				
Net patient service revenue	\$ -	\$ 7,226,105	\$ -	\$ 7,226,105
Other revenue	-	162,561	-	162,561
Total operating revenues	-	7,388,666	-	7,388,666
Operating expenses				
Depreciation and amortization	634,907	13,100	-	648,007
Other operating expenses	-	8,753,549	-	8,753,549
Total operating expenses	634,907	8,766,649	-	9,401,556
Operating loss	(634,907)	(1,377,983)	-	(2,012,890)
Nonoperating revenues (expenses)	407,417	6,088,182	-	6,495,599
Change in net position	(227,490)	4,710,199	-	4,482,709
Transfers	2,034,538	(2,034,538)	-	-
Net position (deficit), beginning of year	2,596,349	(1,642,919)	-	953,430
Net position (deficit), end of year	<u>\$ 4,403,397</u>	<u>\$ 1,032,742</u>	<u>\$ -</u>	<u>\$ 5,436,139</u>

## Cash flows for the year ended December 31, 2021:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Eliminations	Combined Total
Net cash used for operating activities	\$ -	\$ (1,595,630)	\$ -	\$ (1,595,630)
Net cash from noncapital financing activities	2,518,866	(1,724,798)	-	794,068
Net cash used for capital and capital related financing activities	(2,408,136)	91,190	-	(2,316,946)
Net cash used for investing activities	-	168	-	168
Net change in cash and cash equivalents	110,730	(3,229,070)	-	(3,118,340)
Cash and cash equivalents, beginning of year	424,539	5,357,873	-	5,782,412
Cash and cash equivalents, end of year	<u>\$ 535,269</u>	<u>\$ 2,128,803</u>	<u>\$ -</u>	<u>\$ 2,664,072</u>

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements  
December 31, 2021 and 2020

The following summarizes combining information for the Authority and Hospital, which have been presented as blended component units, as of and for the year ended December 31, 2020.

Statement of net position as of December 31, 2020:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Eliminations	Combined Total
<b>Assets</b>				
Current assets	\$ 120,015	\$ 7,283,698	\$ -	\$ 7,403,713
Noncurrent assets	424,539	8,500	-	433,039
Capital assets, net	6,940,114	41,850	-	6,981,964
<b>Total assets</b>	<b>7,484,668</b>	<b>7,334,048</b>	<b>-</b>	<b>14,818,716</b>
Deferred Outflows of Resources	-	76,500	-	76,500
<b>Total assets and deferred outflows of resources</b>	<b>\$ 7,484,668</b>	<b>\$ 7,410,548</b>	<b>\$ -</b>	<b>\$ 14,895,216</b>
<b>Liabilities</b>				
Current liabilities	\$ 286,225	\$ 8,981,716	\$ -	\$ 9,267,941
Long-term debt, less current maturities	4,602,094	71,751	-	4,673,845
<b>Total liabilities</b>	<b>4,888,319</b>	<b>9,053,467</b>	<b>-</b>	<b>13,941,786</b>
<b>Net Position</b>				
Net investment in capital assets	2,091,237	41,850	-	2,133,087
Restricted, expendable for operations and maintenance	434,219	-	-	434,219
Restricted, expendable for debt service	110,335	-	-	110,335
Unrestricted	(39,442)	(1,684,769)	-	(1,724,211)
<b>Total net position (deficit)</b>	<b>2,596,349</b>	<b>(1,642,919)</b>	<b>-</b>	<b>953,430</b>
<b>Total liabilities and net position</b>	<b>\$ 7,484,668</b>	<b>\$ 7,410,548</b>	<b>\$ -</b>	<b>\$ 14,895,216</b>

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Notes to Financial Statements  
December 31, 2021 and 2020

## Operating results and changes in net position for the year ended December 31, 2020:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Eliminations	Combined Total
Operating revenues				
Net patient service revenue	\$ -	\$ 5,795,108	\$ -	\$ 5,795,108
Other revenue	-	222,813	-	222,813
Total operating revenues	-	6,017,921	-	6,017,921
Operating expenses				
Depreciation and amortization	428,737	13,100	-	441,837
Other operating expenses	-	6,928,494	-	6,928,494
Total operating expenses	428,737	6,941,594	-	7,370,331
Operating loss	(428,737)	(923,673)	-	(1,352,410)
Nonoperating revenues	341,049	1,437,539	-	1,778,588
Change in net position	(87,688)	513,866	-	426,178
Transfers	514	(514)	-	-
Net position (deficit), beginning of year	2,683,523	(2,156,271)	-	527,252
Net position (deficit), end of year	\$ 2,596,349	\$ (1,642,919)	\$ -	\$ 953,430

## Cash flows for the year ended December 31, 2020:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Eliminations	Combined Total
Net cash used for operating activities	\$ -	\$ (17,523)	\$ -	\$ (17,523)
Net cash from noncapital financing activities	402,146	4,348,603	-	4,750,749
Net cash used for capital and capital related financing activities	(271,901)	(207,098)	-	(478,999)
Net cash from investing activities	-	355	-	355
Net change in cash and cash equivalents	130,245	4,124,337	-	4,254,582
Cash and cash equivalents, beginning of year	294,294	1,233,536	-	1,527,830
Cash and cash equivalents, end of year	\$ 424,539	\$ 5,357,873	\$ -	\$ 5,782,412

**Note 15 - Subsequent Events**

The Authority has evaluated subsequent events through November 18, 2022, the date which the financial statements were available to be issued.

On June 28, 2022 the voters of in the town of Shattuck approved the continuation of the 1% city sales tax for a term of two years and ending on September 30, 2024.



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees  
Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.  
Shattuck, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (Authority), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 18, 2022. We were not provided sufficient appropriate audit evidence to support the calculation of the tax liability and the net position balances as of December 31, 2021 and 2020. In addition, Management did not have adequate records and documentation to support the clinic purchase during 2019, and the valuation of the assets.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as the basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001 through 2021-004 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2021-005.

## **Authority's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Authority's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses if findings and responses are included in the body of the report. The Authority's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
November 18, 2022



**Material Weakness In Internal Control Over Financial Reporting:**

**2021-001      Preparation of Financial Statements**

*Criteria:* A properly designed system of internal control over financial reporting includes the preparation of an Authority's financial statements and accompanying notes to the financial statements by internal personnel of the Authority. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and GASB.

*Condition:* The Authority does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP and GASB. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, there were entries recorded to net position.

*Cause:* The Authority does not have the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP and GASB. In addition, the accounting system had posting errors resulting in material audit entries being proposed.

*Effect:* The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Authority. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

*Auditor's Recommendation:* We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

*Views of Responsible Officials:* Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

**2021-002      Segregation of Duties and Oversight**

*Criteria:* A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

*Condition:* The Authority has a limited number of individuals available to segregate these duties. In addition, the Authority does not have an internal control process for the review and approval of account reconciliations and journal entries, particularly for non-standard journal entries.

*Cause:* The Authority's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

*Effect:* Inadequate segregation of duties could adversely affect the Authority's ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions. The lack of review and approval process for account reconciliations and recorded journal entries by the appropriate individual increases the risk of misstatement in the financial statements, either due to fraud or error.

*Auditor's Recommendation:* It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations. While having limited resources available to perform all functions is often present in organizations of your size, it is important to consider the significance of certain controls, such as review of account reconciliations and manual journal entries, in detecting and correcting potential misstatements on a timely basis. We recommend that management review current policies and assigned functions and separate the responsibilities of creating and reviewing account reconciliations and posting and reviewing manual journal entries to appropriate individuals. In addition, we recommend that other functions be reviewed to determine if additional segregation is feasible to improve efficiency and effectiveness of the financial management of the Authority.

*Views of Responsible Officials:* The Authority is in the process of implementing adequate controls over recording transactions, reconciliations and identifying misstatements.

#### **2021-003      Review of Significant Estimate Areas**

*Criteria:* Accounting standards require an entity to estimate an allowance on the collectability of receivables and Medicare cost report settlements. The allowance should be based on historical data as well as a review of the specific financial situation and payment factors related to individual accounts.

*Condition:* The allowance calculations for patient receivable valuations and the Medicare cost report settlement were not properly estimated during the year.

*Cause:* The deficiency was caused by a lack of review, policies and procedures in patient receivable valuation and cost report settlements.

*Effect:* Interim financial statements may not be properly stated. Material audit adjustments were made to patient allowance accounts and amounts due from third parties.

*Auditor's Recommendation:* We recommend the Authority regularly review the amounts used to calculate allowances against current payment trends throughout the year and at year end. We recommend that a process is put in place to ensure the estimate for the cost report settlement is being made at year end and periodically throughout the year as determined necessary by management.

*Views of Responsible Officials:* The Authority is in the process of developing and implementing a model to evaluate allowances, which will be monitored and adjusted as needed on an ongoing basis.

**2021-004      Account Reconciliations**

*Criteria:* Reviewing and reconciling accounts to the general ledger is a necessary step in the Authority's internal control process.

*Condition:* During the course of our engagement, it was identified the following accounts are not being reconciled from a sub-ledger or other detail or support to the general ledger on a timely basis.

- Sales tax receivables
- Capital Assets
- Accounts payable
- Accrued salaries and wages
- Refundable advance – Provider Relief Fund
- Net position

*Cause:* Areas with differences that resulted in significant adjustments to the financial statements as noted above.

*Effect:* Misstatements are not identified and corrected in a timely manner.

*Auditor's Recommendation:* We recommend management prepare account reconciliations on a timely basis as well as a review of these reconciliations, in order to identify potential misstatements and reconciling items. Significant accounts should be reconciled from a sub-ledger or other detail or support to the general ledger at least on a monthly basis. Any variances should also be reconciled on a periodic basis to ensure that these balances are fairly stated.

*Views of Responsible Officials:* Management will develop a process to reconcile accounts on a regular basis and investigate any variances.

**Instance of Noncompliance:**

**2021-006      Tax Compliance**

*Criteria:* Regulations require exempt organizations to report unrelated business income.

*Condition:* We noted the Authority did not determine if the December 31, 2016 reference lab revenue was unrelated business income and the related Internal Revenue Service form 990-T was not filed.

*Cause:* The Authority did not determine if reference lab revenue earned in the year ending December 31, 2016 was taxable, due to changes in management companies.

*Effect:* Incorrect reporting of unrelated business income could result in the assessment of taxes, additional penalties and interest.

Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

Schedule of Findings and Responses

December 31, 2021

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*Auditor's Recommendation:* We recommend the Authority evaluate the tax reporting of the 2016 reference lab revenue and consider amending the 2016 Internal Revenue Service Form 990 to include the related 990-T, if the reference lab revenue is unrelated business income.

*Views of Responsible Officials:* We agree with the auditor's recommendation.